FirstRand Limited
(Incorporated in the Republic of South Africa)
(Registration number 1966/010753/06)
JSE ordinary share code: FSR
Ordinary share ISIN: ZAE000066304
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LEI:529900XYOP8CUZU7R671
(FirstRand or the group)

VOLUNTARY TRADING UPDATE FOR THE YEAR ENDED 30 JUNE 2023

Operating environment
Whilst all major central banks have continued to tighten monetary policy, global economic activity has slowed due to persistently high inflation which, in turn, has resulted in a steeper than expected interest rate hiking cycle.

Compared to FirstRand's initial expectations, the South African macroeconomic backdrop has weakened during the second six months of the group's financial year to 30 June 2023.

Domestic economic activity has been particularly negatively impacted by higher levels of loadshedding, sticky inflation and the steeper rise in interest rates than forecast at the beginning of the year. As a result of these factors, the group has reduced its GDP growth forecast for calendar 2023 to a contraction of 0.1% and believes there remains a strong likelihood of further rate hikes.

Markets continue to react negatively to the government's stance on the Russia/Ukraine conflict, which has added to SA's country risk premium. Bond yields have increased and the rand remains vulnerable.

Financial performance
Despite these deteriorating macro factors, the group's expectations for full-year earnings and ROE, published at the time of the interim results in March 2023, remain unchanged.

The group provided the following guidance in the prospects statement of its interim results: *"the operational run rate of the business should deliver underlying earnings growth in the second half similar to that produced in the first half".*

This operational performance has materialised in the second half, with the ROE expected to remain at the upper end of the stated range of 18% to 22%. The group believes that this is a highly commendable performance and is due to the resilience of its customer-facing businesses, ongoing positive momentum in its deposit gathering activities and the group's disciplined allocation of financial resources, in particular its targeted origination strategy adopted during 2021 and early 2022.

The outcomes of the above actions are reflected in the following key income statement trends.

- Net interest income (NII) has benefited from growth in customer deposits and the positive endowment impact resulting from the higher rates. Cost of funding has increased as customers migrate to higher-yielding products and the group also accessed the institutional markets.

  NII also benefitted from continued advances growth. In SA, as guided, this growth has mainly emanated from maintained momentum in retail vehicle asset finance (VAF) and strong demand from commercial and large corporate clients, as the private sector investment cycle continues in certain targeted sectors. Advances growth is trending as expected in the other retail portfolios. The combination of higher rates and inflation has caused affordability pressures in certain consumer segments, which dampened demand. In the UK operations, as guided in March, the second half momentum in advances growth has slowed in both residential mortgages and retail VAF.

The conservative origination approach in the SA businesses during 2021 and early 2022, targeting low- and medium-risk customer cohorts, did weigh on NII growth and net interest margin (NIM). However, during the current year, the mix change in origination combined with the endowment uplift, has resulted in an improved NIM.

- Non-interest revenue (NIR) growth is slightly ahead of management expectations. Fee and commission income at FNB was aided by fee increases in July, the benefit of higher inflation on commission income and good customer growth, which drove up activity levels and commensurate volumes. Insurance revenue, including some reserve releases from better claims experience, also continued to contribute positively.

  RMB's NIR increased on the back of customer gains and structuring activities; however, the challenging environment negatively impacted the markets business in the second half.

- Costs continue to trend significantly higher than inflation. As reported at the interim stage this trend is caused mainly by increased incentives given improved performance, higher US dollar- and pound sterling-denominated spend, headcount increases (particularly in the first half), normalisation of certain costs such as marketing and travel, and ongoing investment in growth strategies. The group expects the cost-to-income ratio for FY23 to be similar to the prior year.

- As signalled at the interim stage, FirstRand's cost of risk has trended up in the second half. However, as previously guided, the group expects its credit loss ratio for the year to remain below its stated through-the-cycle range, given its targeted origination approach. This is despite the level of deterioration in the SA macros, which has resulted in more strain in the domestic retail books than was previously forecast. Provisioning and coverage levels remain appropriately struck.

  In the UK operations there is no indication of greater strain than predicted. Household affordability has held up well so far. However, the repricing of the fixed-rate mortgages book commenced in the second half and the consequences of higher interest rates will continue to weigh on the credit portfolios. Similarly, the credit experience in the broader Africa portfolio is within expectations.

  Across the group, the collections teams have performed extremely well in difficult circumstances.

The group's capital and liquidity levels remain strong and above internal targets.

Shareholders are advised that the financial information on which this voluntary trading update is based has not been reviewed or reported on by the group's external auditors. The group will announce financial results for the full year to 30 June 2023 on Thursday, 14 September 2023.

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21 June 2023

Sponsor
Rand Merchant Bank (a division of FirstRand Bank Limited)